

THIRD EDITION 2016

## 2016 Proxy Season Review

This edition of ProxyPulse is based on analysis of 4,200 annual meetings held between January 1 and June 30, 2016. We provide insights into the voting behavior of shareholders and discuss key corporate governance trends of interest to management teams and boards of directors.

### 2016 PROXY SEASON AT A GLANCE

#### OWNERSHIP

Institutional ownership increased by two percentage points to 70% this season.

#### VOTING

Voting participation for institutional and retail shareholders was 91% and 28%, respectively, consistent with last season.

#### PROXY ACCESS

- Approximately 40% of companies in the S&P 500 have now adopted proxy access by-laws,<sup>1</sup> up from less than 1% in 2014.<sup>2</sup> Further, 60% of proxy access shareholder proposals that went to a vote this season received majority support.
- Thus far, no shareholders have used proxy access for director nominations.

#### SHAREHOLDER ACTIVISM

Activism continues to trend upward. More proxy contests went to a vote this proxy season.

#### SAY-ON-PAY

Some public companies continue to fall short of important benchmarks for say-on-pay support. Approximately 11% of companies (262) did not surpass the 70% shareholder support threshold this season.

#### DIRECTOR ELECTIONS

While average shareholder support for directors was 96%, 382 directors failed to obtain majority support this season. 1,304 directors failed to receive at least 70% support.

#### RETAIL SHAREHOLDER DEMOGRAPHICS

Recently, we identified key demographic attributes of US shareholders (see pg. 3). Companies may wish to consider such information in their outreach to retail shareholders.

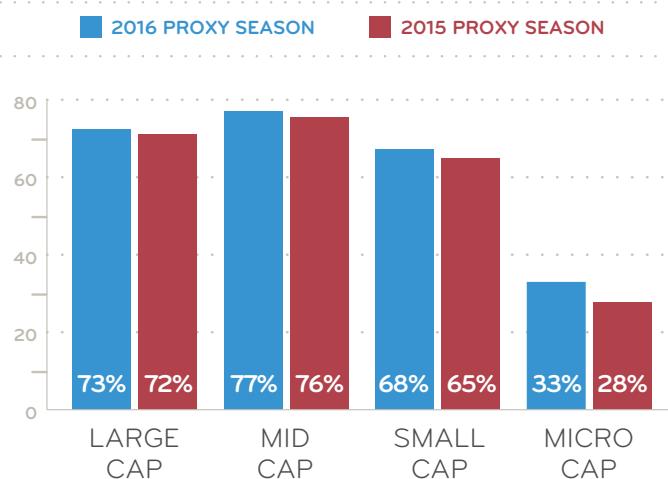
<sup>1</sup> Sidley Austin, *Proxy Access Momentum in 2016*, June 2016

<sup>2</sup> Skadden, *Proxy Access: Highlights of the 2016 Proxy Season*, June 2016

## PUBLIC COMPANY OWNERSHIP

- Since last proxy season, institutional ownership increased by 2 percentage points, to 70% of street shares.
- Institutional ownership of small-cap and micro-cap companies increased modestly from last season.

## INSTITUTIONAL<sup>3</sup> SHARE OWNERSHIP



## DIRECTOR ELECTIONS

- 22,560 directors were up for election during the 2016 proxy season. Average shareholder support was 96%.
- 382 individual directors at 173 different companies failed to receive majority shareholder support.
- 1,304 directors failed to garner at least 70% support.

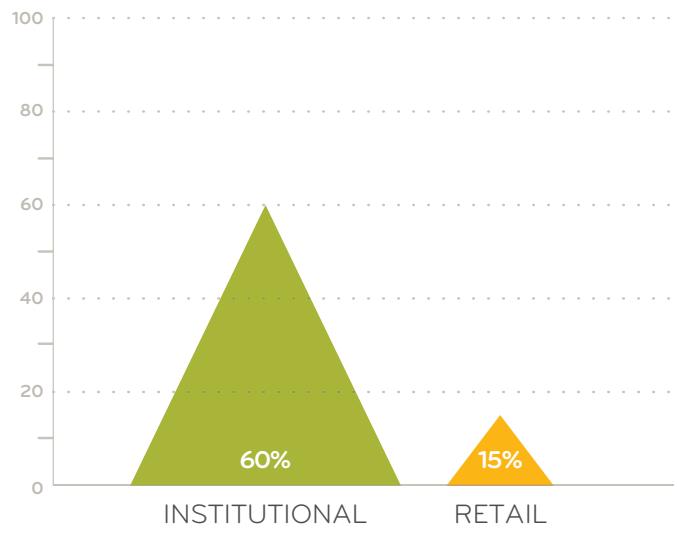
## DIRECTOR SUPPORT 2016

Shareholder Approval Level	# of Directors	% of Directors
90-100%	18,431	81.7%
80-89%	1,894	8.4%
70-79%	931	4.1%
60-69%	530	2.3%
50-59%	392	1.7%
<50%	382	1.7%
Total	22,560	100%

## PROXY ACCESS

- Of the 69 proxy access shareholder proposals that went to a vote, 60% received majority support.
- Retail shareholders cast 85% of their voting shares against proxy access.
- Institutions cast 60% of their voted shares in support of proxy access.
- 72 companies received proxy access proposals from the New York City Boardroom Accountability Project. More than two-thirds reached agreement to adopt proxy access by-laws before the shareholder meeting.
- While a majority of surveyed directors view proxy access favorably, less than 20% believe that a 3% ownership requirement for a three-year holding period is the right standard. More than half of the directors surveyed believe proxy access should require 5% ownership for at least five years.<sup>4</sup>

## RETAIL/INSTITUTIONAL SUPPORT FOR PROXY ACCESS PROPOSALS



<sup>3</sup> "Institutional shareholders" refers to shares voted through a vote agent, managed accounts, shares processed via Broadridge's ProxyEdge platform, or any position identified by a bank/broker as institutional. This typically includes mutual funds, pension funds, hedge funds, discretionary asset managers, and/or university endowments funds. All other shares are considered retail.

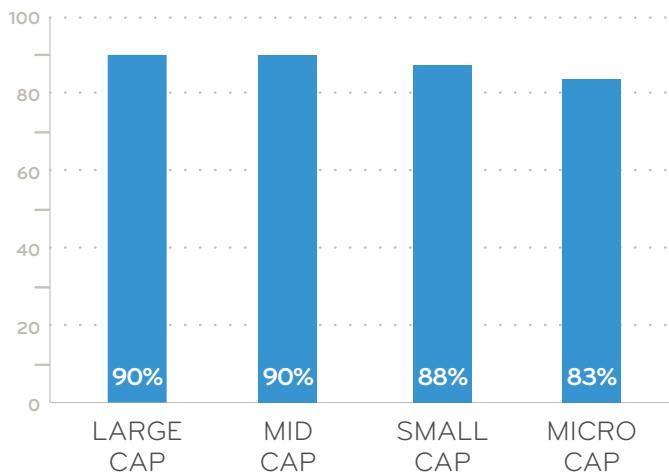
<sup>4</sup> PwC's 2015 Annual Corporate Directors Survey

**Key defining company size:** Large Cap: \$10b+ • Mid Cap: \$2b-\$10b • Small Cap: \$300m-\$2b • Micro Cap: \$300m or less

## SAY-ON-PAY

- Among companies with less than 70% support last season, 42% failed to surpass 70% support again this season.
- Weak support for say-on-pay can be associated with weak support for directors. For example, 23% of companies that failed to surpass 70% support for say-on-pay last season had at least one director fail to achieve 70% support in their election this season.
- There is more direct dialogue between directors and investors about executive compensation and a change in director mindset about such communications. Seventy-seven percent of directors believe it is "somewhat" or "very" appropriate to discuss executive compensation with shareholders (compared to 65% in 2013).<sup>5</sup>
- 2017 starts a new six-year cycle for shareholders to vote on the frequency of pay votes.

## AVERAGE SAY-ON-PAY SUPPORT BY COMPANY SIZE – 2016 PROXY SEASON



## RETAIL SHAREHOLDER DEMOGRAPHICS\*

In the ProxyPulse Second Edition mid-proxy season report, we introduced new data on the demographic makeup of retail shareholders, partly in response to companies seeking greater understanding of their shareholder base. The expanded analysis below compares US shareholders to the US population overall.

Demographics	US Shareholders	US Population
Age <40 years old	20%	31%
Children at Home	40%	50%
Graduate Degree	22%	11%
Retired	20%	16%
Income > \$250K	8%	3%
Homeowner	91%	75%
Estimated Home Value at over \$1 Million	9%	3%
Annual Discretionary Spending over \$20K+	61%	34%
Active Investor	60%	30%
Likely to buy products online	59%	37%
Green Aware**	78%	61%
Political Affiliation	Republican Democrat Independent Non-registered	27%
		29%
		12%
		32%

\* Broadridge randomly sampled 50,000 beneficial and registered proxy records, which were matched to a leading market and credit data analysis provider to develop aggregate profiles of individual investors that hold shares in US public companies.

\*\* Measured as those who, when given a choice, lean towards products that claim to be environmentally conscious.

## OTHER AREAS OF INTEREST

### BOARD LEADERSHIP

- There were 44 shareholder proposals to split the role of Chair and CEO this proxy season, compared to 57 proposals last season. None of these proposals received majority support this season (compared to three last season).

### BOARD DECLASSIFICATION

- Thirty-eight companies had a board declassification proposal on their proxy, and each of them passed. Nearly all of the proposals were from management. This is consistent with last season's voting results, when all 37 such proposals passed.

<sup>5</sup> PwC's 2015 Annual Corporate Directors Survey

## RECENT CORPORATE GOVERNANCE DEVELOPMENTS

- **Commonsense governance principles:** On July 19, 2016, a group of leading executives from several public companies and institutions published a report on "Commonsense Principles of Corporate Governance." Some of their more notable perspectives include:
  - Directors should be elected by a majority of votes cast "for." Abstentions and non-votes should not be counted for director elections.
  - Dual-class voting is not a best practice. If a company has dual-class voting, which sometimes is intended to protect it from short-term behavior, the company should consider having specific sunset provisions based upon time or a triggering event.
  - While it is acceptable in certain instances to use non-GAAP measures to explain and clarify results for shareholders, such measures should be sensible and should not obscure GAAP results.
- **Proposed regulation of proxy advisory firms:** The Corporate Governance Reform and Transparency Act proposed in the US House of Representatives in May 2016 would require proxy advisors to register with the SEC, provide information about their methodologies for determining voting recommendations, and disclose any of their potential conflicts of interest. With bipartisan support, the bill advanced out of the Financial Services Committee to the full chamber with a recommendation that the bill be considered.
- **Possible voting policy changes by proxy advisors:** ISS recently released its annual 2017 voting policy recommendation survey. It is considering:
  - Whether executive chairs should be held to the same standards as CEOs during voting decisions
  - Which director tenure elements should prompt a review of a company's board refreshment policy
  - Whether financial metrics other than total shareholder return should be considered when assessing pay for performance

## ABOUT

ProxyPulse is based in part on Broadridge's processing of shares held in street name, which accounts for over 80% of all shares outstanding of US publicly-listed companies. Shareholder voting trends during the proxy season represent a snapshot in time and may not be predictive of full-year results.

**Broadridge Financial Solutions** is the leading third-party processor of shareholder communications and proxy voting. Each year it processes over 600 billion shares at over 12,000 meetings.

**PwC's Governance Insights Center** is a group within PwC whose mission is to help directors and investors alike better understand insights and latest thinking on current governance issues.

### Broadridge Financial Solutions

<b>Chuck Callan</b>	<b>Sharyn Bilenker</b>
Senior Vice President – Regulatory Affairs	Vice President – Corporate Affairs & Strategic Development
845.398.0550	201.714.8778
chuck.callan@broadridge.com	sharyn.bilenker@broadridge.com

### PwC's Governance Insights Center

<b>Paula Loop</b>	<b>Paul DeNicola</b>
Leader, Governance Insights Center	Managing Director, Governance Insights Center
646.471.1881 paula.loop@pwc.com	646.471.8897 paul.denicola@pwc.com

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